



## PAYMENTS FOR SEASCAPE BEAUTY: THE CASE OF TUBBATAHA REEF NATIONAL MARINE PARK

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### Abstract

Many conservation projects fail because local stakeholders share a disproportionate burden of the cost arising from a no-take zone compared to the benefits accruing to global stakeholders and more powerful groups. Conflicts arising from the establishment of marine protected areas are usually caused by outside interests colliding with local interests and priorities. Ensuring fishers who will lose access to fishing grounds can negotiate for their interest and get acceptable benefits in return for their losses is key to gaining their support to no-take provisions of a marine protected area. The case of establishing an offshore marine protected area in the Tubbataha reefs, in the center of the Sulu Sea, Philippines, provides a practitioners' perspective in reconciling competing interests based on the sharing of costs and benefits that all stakeholders consider satisfactory and equitable. User fees from diver groups and grant payments from outside donors that supported local livelihoods and park operations offer lessons in cost and benefit sharing. The experience highlights the importance of generating stakeholders' agreements based on benefit-sharing as a platform for future conservation actions.

### 1. Introduction

The Tubbataha Reefs National Marine Park (TRNMP) is an offshore marine protected area located in the middle of the Sulu Sea. Two islets with a total land area of 1.9ha are surrounded by the biggest atoll complex in the country. The park covers 33,200ha and lies about 160 km southeast of Puerto Princesa City and 80 km southwest of Cagayancillo, the municipality that used to have administrative jurisdiction over the area (**Figure 1**). On 11 December 1993, the United Nations Education, Science and Cultural Office (UNESCO) declared Tubbataha Reefs a World Heritage Site. It was also designated an important wetland site under the Convention of Wetlands held in Ramsar, Iran.

The etymology of Tubbataha comes from two Badjao words, *tuba* which means "coral outcrop" and *taha* meaning "long". There are no inhabitable islands in the park and all divers visit the park via live-aboard chartered boats. Since the 1980s,

the Tubbataha reefs have been the prime diving destination of scuba divers from the Philippines and other countries.

Aside from being a natural heritage site, the acclaimed value of the TRNMP is its economic contribution to fisheries and ecotourism. Reef preservation yields high economic returns (Constanza 1997) although translating these into financial returns remains low. How to capture and monetize these returns is the challenge that the Tubbataha Protected Area Management Board (TPAMB) is facing, considering that government funds are perennially inadequate while NGO (non-governmental organization) funding is limited, project-driven and short-term. Because the park carries World Heritage status and is visited by local and foreign divers, there is an opportunity to generate independent funding through user fees.

The TRNMP is under threat, despite its status as a World Heritage Site. Commercial fishing boats coming from the Visayas fish in Tubbataha. Some

fishers collect turtle eggs and adult turtles for their shells. Fishing boats from China and Taiwan were reported poaching in Tubbataha waters. Residents from Cagayancillo usually go on fishing expeditions to Tubbataha or were hired as crew of commercial fishing boats. Some Cagayancillo residents were alleged to have been involved in illegal fishing activities. Other threats include indiscriminate dropping of anchors from dive boats, seaweed farming, unregulated tourism and pollution from passing ships.

## 1.1 Legal Framework

### Park Management

The National Integrated Protected Area System Act (NIPAS) provides for a democratized, decentralized multi-stakeholder approach to park management. The TPAMB is the mandated body to develop policies and plans for the protected area. It comprises 17 members with the Governor of Palawan as Chairperson and the DENR (Department of Environment and Natural Resources) Regional Executive Director as Vice-Chair. The other members are the Palawan ENRO (Environment and Natural Resources Office), Palawan Council for Sustainable Development Staff, DENR-Provincial Environment and Natural Resources Office (PENRO), Provincial Council Chair of Committee on Environment, Provincial Council Chair on Committee on Budget and Appropriation, Provincial Government, Municipal Mayor of Cagayancillo, Palawan Council for Sustainable Development, Armed Forces of the Philippines (AFP)- Western Command, Naval Forces West, the Philippine Coast Guard (PCG), the Department of Tourism (DOT), Tambuli Ta Mga Kagayanen and representatives from NGOs (WWF-Philippines, Conservation International (CI) and SAGUDA). The Tubbataha Management Office (TMO) headed by the park area superintendent is the executive office responsible for park administration and field operations.

To protect the park, a seven-person composite enforcement team is posted at the ranger station in Tubbataha. Members come from the Philippine Navy (3), PCG (2) and the TMO (2). This composite team follows a two-month rotation of duty. The station is equipped with a radar, speed boats and communications equipment. A park manager supervises the operations of the park.

### Assessment of Fees

The legal basis for charging user fees is found in the NIPAS Act, a law that establishes a network of protected areas in the country and mandates the creation of an Integrated Protected Area Fund (DENR 1992). Under the Implementing Rules and Regulations of NIPAS, the Park Offices “shall collect pertinent fees, charges and donations and deposit the same in a Special Account” (Sec. 60). Income can come from “fines and fees, including protected area entry fees, collected and derived from operation of the protected area” (Sec. 58).

The use of economic valuation in computing the fees is mandated in DENR Administrative Order (DAO) 2000-51 “Guidelines and Principles in Determining Fees for Access to and Sustainable Use of Resources in Protected Areas” (DENR 2000). In setting fees, the DAO guidelines adopt the willingness-to-pay (WTP) principle, where fees are based on “WTP estimates of the visitors based on appropriate surveys” (Sec. 8.1.2), and the cost-recovery principle, where “collected revenues shall cover, as much as possible, a reasonable proportion of all costs incurred in protecting, maintaining and enhancing the natural attractions of the protected area” (Sec 8.1.1).

A protected area bill (HB 3772) is now pending in the Lower House of Congress. The bill draws features from the Local Government Code and the Strategic Environmental Plan (SEP) law by decentralizing decision making at the provincial level and allowing local retention and management of funds collected through user fees.

## 1.2 Description of Environmental Services

The TRNMP provides seascape beauty and marine biodiversity as bundled environmental services. The park is reputed to be the larval source for the Sulu Sea, where water currents are believed to seed the fishery and corals in nearby Palawan province (Alcala 1993). It also provides a strategic location for a monitoring outpost to safeguard vital drilling installations in the Sulu Sea and serves as an ideal platform to counter terrorist actions that may emanate from the South.

As a provider of marine biodiversity, Tubbataha hosts at least 396 species of corals (Fenner 2003), 463 species of fish, 79 species of marine algae and at least nine species of seagrasses. The high coral diversity exemplifies the Sulu-Sulawasi seas as areas of high coral diversity, higher than that of the Great Barrier or the Caribbean Sea. Tubbataha is probably best known by divers for its intact coral reefs, clear visibility and large marine life. At least six species of sharks (White and Arquiza 1999) and nine species of cetaceans (Aquino and Calderon 2004) have been recorded. Manta rays and whalesharks are also occasionally encountered. Tubbataha is home to at least two species of sea turtles and the islets are important nesting grounds while the seagrass meadows serve as important feeding grounds. The presence of top predator species substantiates the ecological balance of the reef. The islands are important rookeries, feeding and breeding grounds for seabirds and other bird species. A total of 44 species of birds (residents and migrants) have been recorded on both islets of the park.

## 1.3 Buyers and Providers/Sellers of Environmental Services

The buyers of seascape beauty are recreational scuba divers who comprise the end-users in the value chain. There are intermediaries such as dive operators, travel agents, transport and carrier services, hotels and other agents that sell Tubbataha as a diving destination.

The global community recognizes Tubbataha as a site of rich marine biodiversity. The World Heritage status conferred to the park and its inclusion as a Ramsar site is testament to its global importance. Buyers of marine biodiversity in Tubbataha are foreign donors such as Global Environment Facility through the United Nations Development Programme (UNDP-GEF), Packard Foundation, Japan International Cooperation Agency, Marine Parks Center of Japan, local and international conservation organizations and the United Nations Education, Science and Cultural Organization. These organizations provided financial and non-financial support to the TRNMP.

The Philippine Navy is a significant contributor to Tubbataha and may, therefore, be considered a buyer. Their interest is in the strategic location of the park, where they can install a monitoring outpost to counter any threats to the vital oil and gas projects in the Sulu Sea and to respond to terrorist threats emanating from the South.

The provider of the environmental service is neither an intermediary nor a seller. The State, through the DENR, has jurisdiction over all national parks in the country. In the case of Tubbataha, jurisdiction is decentralized with the province of Palawan through the Palawan Council for Sustainable Development (Palawan CSD). The Palawan CSD chairs the Tubbataha PAMB, which is responsible for park management and operations. As indicated earlier, the TPAMB is a multi-stakeholder body whose members represent different interests in Tubbataha. The TPAMB, in effect, functions as a provider of the environmental service.

The fisherfolk and the local government of Cagayancillo can be categorized as providers of ES for having voluntarily given up access and jurisdiction over the area and, therefore, bear the opportunity cost of park establishment.

WWF-Philippines plays a brokering role by providing assistance in developing a user fee system to close the loop between buyers and sellers

of seascape beauty, as a service. It also raised funds for a proposal that would generate benefits due to Cagayancillo municipality. WWF-Philippines facilitated the Tubbataha stakeholders planning workshop and incorporated the agreements and framework into a proposal. The proposal was then submitted to UNDP-GEF. Upon approval of the proposal, WWF-Philippines began implementing the “Conservation of the Tubbataha Reef National Marine Park and World Heritage Site” project from 2000 to 2004. A full project cycle was completed in 2004, but WWF continues providing selected technical assistance to the park.

The goal of the WWF-implemented project was to conserve the unique and relatively pristine condition of the globally significant biological diversity and ecological processes of TRNMP, and to manage the area on a sustainably and ecologically sound foundation. The project components included biological research and monitoring, visitor management, enforcement, information and education, coastal management and livelihoods, sustainable financing and parks systems, and infrastructure development.

## **2. Methods**

### **2.1 Brokering Process**

There were two streams of environmental payments channeled to the environmental service providers (i.e. TRNMP management and Cagayancillo municipality). The payments originate from two sources: diver groups and foreign donors (i.e. UNDP-GEF, Packard Foundation and WWF-US).

The first stream of environmental payments was set up to capture diver consumer surplus and channeled the proceeds to the park trust fund. The second stream can be described as in-kind transfers to benefit the Cagayancillo municipality through coastal resources management and livelihood program facilitated by WWF-Philippines, and funded by Packard Foundation and the GEF.

## **2.2 Establishing the User Fee System**

### **2.2.1 Preparatory Activities**

The process of user fee establishment involved stakeholder consultations, WTP, policy development, installing management systems, and pilot collections (Tongson and Dygico 2004).

WWF-Philippines and stakeholders invested in park infrastructure that was necessary for housing the enforcement personnel and their equipment to start regular patrols in the park. These visible expenditures impressed upon diver visitors the local efforts and investments being undertaken. In 1998, stakeholders contributed to finance the establishment of a ranger station and purchase of equipment (i.e. radar, communications, boats). A project implemented by WWF-Philippines initiated the establishment of a park office, operating systems, and institutionalized park management through the hiring of a full-time park superintendent. Further enabling policies with the TPAMB were formulated and put in place. The financial resources that were required to sustain these activities formed the basis for the collection of fees.

### **2.2.2. Willingness-to-Pay (WTP) Surveys**

In 1999, a WTP survey was undertaken to estimate the recreational values to SCUBA divers-tourists visiting the TRNMP. This involved conducting a questionnaire survey of a diver sample by asking their WTP for entry to the marine park.

The questionnaire was pre-tested and administered in 1999 by SAGUDA, an NGO based in Palawan. With the cooperation of boat operators, enumerators boarded boats and interviewed 244 foreign and local divers in Puerto Princesa, the capital city of Palawan. During the interview, respondents were asked about their willingness to pay a fixed fee ranging from US\$25 to US\$75. The responses were compiled, tabulated and analysed. The average WTP was estimated at US\$41.11 for the whole sample that comprised 239 valid responses.



A fee structure was designed — US\$25 per visit for local divers and US\$50 per visit for foreign divers — which became the basis for collecting fees for the next dive season in 2000. A visit normally averages five days.

### **2.2.3 Stakeholder Consultations and Fee-sharing Agreements**

After the setting of fee structure, the next step was to secure stakeholder support and to develop institutional arrangements for the collection mechanism. In preparation for the initial collection activities in 2000, a series of stakeholder consultations was conducted with government officials, NGOs, boat operators, diver groups, and the communities in Cagayancillo.

WWF-Philippines presented the WTP results and fee rates to the TPAMB that then issued a resolution authorizing WWF-Philippines to collect the fees. The TPAMB created a special Trust Fund where user fees are deposited under the account of the Provincial Treasury. This facilitated the issuance of provincial treasury receipts.

Rules on disbursement were agreed with the TPAMB before the start of the pilot collection. TPAMB Resolution No. 00-10 authorized the board to apportion the collections as follows: 50 per cent for the Trust Fund; 43 per cent, Park Administration and Management; and 7 per cent for the municipality of Cagayancillo to finance livelihood projects. Actual disbursements were authorized by the TPAMB based on annual work and financial plans prepared by the TMO. The 50 per cent accruing to the trust fund was used as leverage to secure more funds from financing agencies.

### **2.2.4 Implementation of the User-Fee Scheme**

Pilot collections started in 2000. Boat operators that ply Tubbataha are oriented and instructed on collection procedures. Before sailing for Tubbataha, boat operators pay the diver fees and

boat operator fees at the provincial capitol in Puerto Princesa City. The city is the take-off point for dive boats. Fees are assessed corresponding to the number of booked divers and follow the two-tiered system of US\$50 per visit for foreigners and US\$25 for locals. A 50 per cent discount is given for repeat visits within the same dive season.

Boats are likewise charged \$50 per trip to Tubbataha. Some operators charge user fee on top of their existing packages while others absorb the cost. The park office in Puerto Princesa collects payment and issues provisional receipts and entry permits to the operator. During the 8-0 hour voyage, videos are shown on board highlighting park rules and regulations. Upon arrival in Tubbataha, boats register at the ranger station where the vessel entry permits and diver permits are inspected. Most operators spend an average of five days with three days spent diving and two days for the voyage from and back to Puerto Princesa City.

### **2.3 Facilitating In-kind Payments to Cagayancillo Municipality**

Preparatory workshops were held in Cagayancillo in 1998 to distill the expectations and aspirations of the fishers and their LGU representatives on the establishment of Tubbataha reefs as a no-take Marine Protected Area (MPA). In return for losing access and jurisdiction over the park, the Cagayancillo stakeholders negotiated for a share from user fees, the provision of livelihood and the launching of a coastal resources management program to improve their fisheries. These demands were, in effect, concessions to the establishment of MPA. The expectations were presented during the multi-stakeholder planning workshops to arrive at a set of agreements. The livelihood and coastal management program for Cagayancillo was funded by Packard Foundation and WWF-US provided co-financing to the UNDP-GEF grant.

The agreements were subsequently implemented. A livelihood operations plan was prepared. Seaweed

farming and marketing are key components of this plan. A one-million peso loan fund was set up with project and counterpart funds from the LGU. The fund provided loans to finance livelihood projects of the cooperative members. The projects included seaweed growing, fishing, retail stores, fish drying and other livelihood activities. Loan payments were timed to coincide with projected cash flows from the livelihood activities. A multi-purpose building was constructed to house a livelihood foundation that administered the credit program. A coastal management program that established five marine protected areas and intensified enforcement of laws against illegal fishing was launched. Also launched recently in Cagayancillo was a marine certification initiative to introduce sustainable capture of ornamental fish.

### 3. Results

From 1998 to 2004, total revenues from user fees amounted to PhP8.8 million with 2004 showing the highest collection at PhP2.3 million. User fee collections in 2000 were significantly higher than the collections in previous years when the level of fees was set arbitrarily. Visitor arrivals dropped in 2002 due to the decline in international tourism, an aftermath of 9/11 and Dos Palmas kidnapping incident. Arrivals did a rebound in 2003 and achieved a historic high in 2004. Other sources of revenues included allocations from the Palawan provincial government, fines from enforcement, interest earnings, and proceeds from sales of souvenir items (**Table 1**).

The cost of maintaining the park is high primarily because of its isolation and size. Based on 2004 figures, the park's annual maintenance cost amounts to PhP6 million. The amount defrays the costs of deploying seven rangers, bi-monthly relieving trips, supplies, facility and equipment, maintenance, equipment purchase, information campaigns, research surveys, park management and administration. The collections of the TMO in 2004 represent 42 per cent of the cost to maintain

the park. About half of the cost is covered through in-kind support by the Philippine Navy and Coast Guard; 9 per cent comes from the project.

Clearly, the park is still dependent on the Philippine Navy for in-kind support. Withdrawal of this support cannot be replaced by an alternative scheme solely funded by user fee collections. The Navy's annual commitment still remains an invaluable key in sustaining management of the park.

In 2004, the Cagayancillo LGU collected their 7 per cent share of PhP435,000, which was used to build a section of a farm-to-market road that, in turn, helped improve transport of farm products.

Inspired by the Tubbataha success in restoring fish productivity, Cagayancillo's local officials established five MPAs that now support a thriving fisheries industry. Illegal fishing has been contained largely due to strong leadership supported by an active citizenry. Live coral cover and fish biomass in these MPAS are currently at their highest levels (WWF 2004). Perceived fish catches by fishers during the focus group discussions (FGDs) reportedly increased from 10kg/day to 15-20kg/day from 1999 to 2004 (Todd & Nunez 2004). The foregone benefits for losing access to Tubbataha seem to be compensated by improvement in fisheries and fish catches. Apparently, small fishers using hook-and-line and spear fishing have benefited from improved fisheries. Livelihood indicators also show signs of improvement based on available data from the National Statistics Office on house ownership, roofing and access to electricity (**Table 2**).

The TRNMP completed the full project cycle in 2005, culminating in a participatory evaluation workshop in May. Stakeholders confirmed full compliance to the agreements reached in 1999. The set of recommendations generated by the workshop will feed into the next cycle of re-negotiations and planning of the TPAMB. For example, the diver group and boat operators lobbied

for a uniform entrance rate of PhP3,000 per guest/visit for endorsement to the TPAMB for approval. The Cagayancillo municipality is exploring the possibility of launching an ecotourism program and charging fish aggregating devices within its municipal waters to increase collection of fees from users of coastal resources.

#### 4. Conclusions and Recommendations

Closing the loop between buyers and providers of environmental services was made possible through the user-fee system and grant support to pay for direct providers of ES (i.e. park administration and rangers) and indirect providers (i.e. Cagayancillo residents and LGU) for their foregone benefits.

Most seascapes with ecotourism potential fall under municipal waters where the service provider is the LGU. The LGU has a poor record in maintaining these areas except for a few performing sites (e.g. St. Paul's Underground River in Palawan, Sagay Marine Reserve in Negros Occidental). Most seascapes, if left on their own, will inevitably suffer from abuse — illegal settlements, destructive fishing and unregulated development (e.g. Boracay, Puerto Galera). The problems posed by open access regimes and lack of an accountable service provider are major challenges to closing the loop between buyers and sellers in the public domain.

MPAs falling under NIPAS are under the jurisdiction of DENR. The NIPAS Act allows parks to charge user fees and to remit their collections to the National Treasury where 25 per cent goes to a central fund and 75 per cent goes to a sub-fund allocated for the protected area. The Protected Area Office would submit a work and financial plan to the DENR National Office to access their 75 per cent share. The implementation of IPAF suffers from collection and disbursement problems. These MPAs have to work within the law creating the Integrated Protected Areas Fund. Many park stakeholders have complained about

delayed payments from IPAF and have even threatened to disestablish the park. The IPAF law should be modified to allow local stakeholders to keep the 75 per cent sub-fund, deposit this amount in a local account and remit the remaining 25 per cent to the central fund. This will provide greater flexibility for site managers to disburse the funds when and where needed.

So far, the record of establishing marine protected areas has been disappointing as more powerful conservation organizations, backed by their donors, are able to impose their preservationist agendas to the detriment of the poorer, marginal and fragmented fisherfolk who are often left out of the decision-making process. Their marginalization causes resentment which may undermine the park if not addressed sooner. To achieve broad-based support to a park, there should be a net benefit to each stakeholder group because of its establishment, especially for those who stand to lose because of restrictions imposed on their livelihoods and loss of access to resources.

The compensation given to Cagayancillo fisherfolk and officials as concession in the establishment of the MPA is an important equalizing factor to win support from this stakeholder group. Here, costs and benefits are matched to arrive at a fair allocation. This allocation is often missed out in the design of MPAs, which leaves “losers” disgruntled and resentful of these conservation areas.

The allocation of costs and benefits should be negotiated at the start of a project cycle even before the planning phase could begin. Beneficiaries are asked what they can contribute or afford to pay to set up a conservation area, while those who bear the cost because of an MPA are able to negotiate for a fair compensation mechanism.

This is where user fees, donor grants and other forms of environmental payments can play a major role. These payments should support the agreements made and the equitable allocation of costs and benefits across stakeholder groups so

that each would have a net incentive to support conservation.

Fees based on results of WTP surveys optimize returns to the park. Historically, park fees are set too low if not arbitrarily by government agencies. Collections are nominal and national budgets are relied upon to subsidize the park. Parks become “paper” parks due to lack of funding. TRNMP faced this dilemma in 1999-2000 when entrance fees were set very low and arbitrarily (**Table 1**). With dwindling budgets, government will be hard pressed to support national parks. If done properly, user fees can contribute significantly to raising independent financing. In the case of Tubbataha, they contribute 42 per cent and may increase if visitor arrivals are managed properly.

Tubbataha presents a case where actions and wise practices are developed in response to the opportunities presented and enabling context. The enabling context is the social capital built over the years among stakeholder groups. The Tubbataha case validates the multi-stakeholder management approach where essentially the project acts as a facilitator, rather than an implementer. Specifically, the project facilitates the convening of a management group, developing a collective vision, identifying issues, formulating strategies and drawing the management plan. Through a multi-stakeholder process, the resulting vision and plan is collectively owned.

WWF-Philippines identifies a niche and develops a project contributing to the attainment of the collective vision. Project resources are matched by counterpart provincial, municipal and civil society resources. Since outputs and outcomes are shared, monitoring and evaluation system is participatory, complemented by data generated from a project monitoring system. The stakeholders become the planner, doer and evaluator of their actions. Resources are devoted more to minimizing constraints, providing technical assistance and setting standards for implementation while, simultaneously, mechanisms are put into place

to create new sources of financing, enhancing capacities, installing accountability mechanisms and working systems to efficiently manage the park.

The paradigm and approach is replicable, although in specific sites and context, the willingness of stakeholders to cooperate to come closer to a shared vision will determine the course and pace of actions that will be needed.

Beneficiaries of environmental services often do not share in the cost of service provisioning, while those who bear the cost of providing the services are not adequately compensated. Closing the loop between buyers and sellers through user-fee systems are mechanisms to create independent financing to the conservation area. After the Tubbataha experiment, WWF-Philippines successfully replicated the process in Anilao, Batangas, in 2003. A manual on user fee establishment was then developed from these experiences.

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Table 1. Revenues by Source, 2004

	1998-1999	2000	2001	2002	2003	2004	Total
No. of guest-visits		866	692	629	858	921	3,045
No. of foreigners		568	433	352	369		1,722
No. of locals and expats		258	240	277	489		1,264
No. of boat trips		84	66	59	72	75	281
Government appropriations					520,000		520,000
Diver fees collected	240,000	1,717,321	1,599,512	1,223,039	1,761,210	2,305,780	8,846,863
Savings from projects						94,167	94,167
Boat fines, fees					176,200	30,000	206,200
Proceeds from sales of souvenir items				40,000	20,510	92,147	152,657
Interests				178,830		6,852	185,682
Total Collections		1,717,321	1,599,512	1,441,869	2,477,920	2,528,946	10,005,569

Source: Provincial Treasurer's Office, Palawan Council for Sustainable Development, WWF-Philippines.

\*Exchange rate: US\$1 = PhP50

Table 2. Data on Selected Living Standard Indicators in Cagayancillo, 2000 and 2004 (Cola 2005)

Indicator	2000 (NSO)	2004 (Subade)
Households who owned lots	82%	86%
Households who owned houses	85%	95%
Houses with GI roof	58%	72%
Households using kerosene for lighting	65%	50%
Households using LPG as cooking fuel	11%	10%
Houses with water-sealed toilets	46%	56%
Houses with television	5%	6%
Houses with refrigerator	5%	7%

Source: National Statistics Office, Subade (2004)

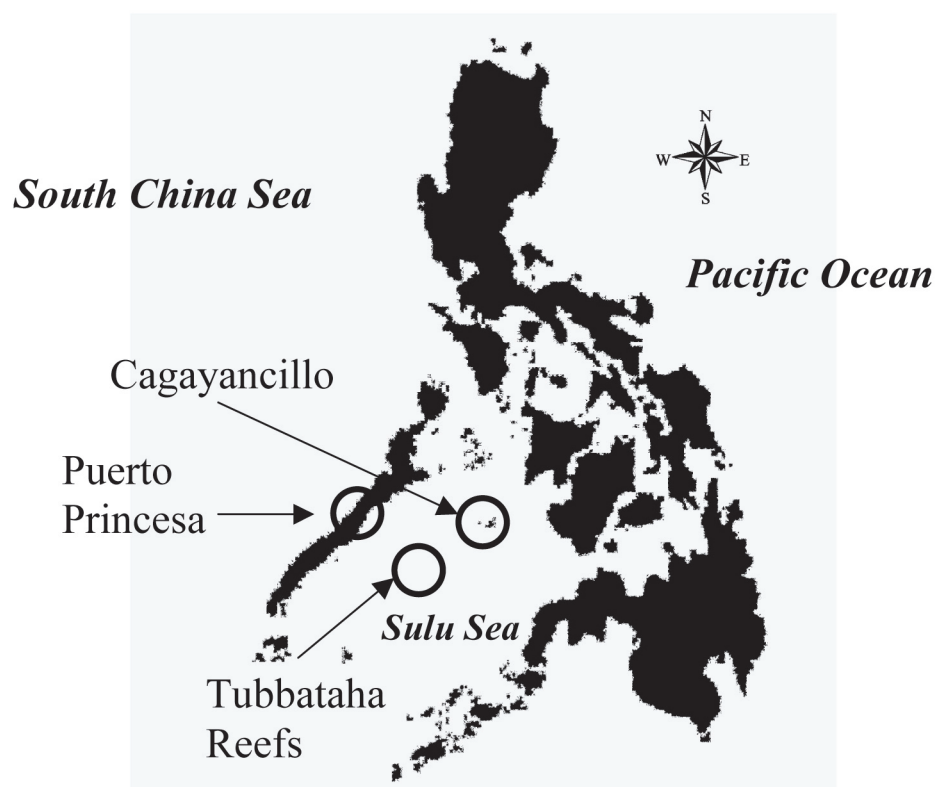


Figure 1. Map of Tubbataha Reef Natural Marine Park



## ASIAN CONSERVATION COMPANY AND INVESTMENT IN TEN KNOTS GROUP/EL NIDO RESORTS

**Leigh Talmage-Perez**

### **Abstract**

The Asian Conservation Company may be the first investment holding company in Southeast Asia incorporated with a Triple Bottom-Line approach of investing in companies that provide an *acceptable financial return* to shareholders, provide for *environmental conservation* by creating a sustainable financing model, and support *corporate social responsibility* through real employment and educational opportunities. The company is the majority shareholder of the Ten Knots Group, owners of the “Responsible Tourism” / Ecotourism destination of El Nido Resorts in Palawan, Philippines.

Public funding for the preservation of landscapes/seascapes continues to be inadequate to properly manage and maintain protected areas. The Asian Conservation Company and Ten Knots acknowledge the importance of protecting the natural assets in their areas of operation in order to enhance their discriminating guests’ experience. Private sector entities can assist in funding the gap for environmental conservation by creating their own Payment for Environmental Services.

Payments for Environmental Services from Asian Conservation Company/Ten Knots are in the form of both external and internal payments. External payments consist of mandatory fees required to set up and operate in a protected area and also voluntary company donations and “landing” fees included in the airfare. Internal payments are embedded into the operations of El Nido Resorts and can be on-going or on a one-time/as-needed basis.

The Asian Conservation Company/Ten Knots recommends that any mandatory fees, including a payment for environmental services, be simple to collect, sensible, reasonable, and transparent. It encourages other private sector partners to incorporate internal payments for environmental conservation into their own operations. Eventually, as the general public and consumers become more educated, environmental payments may be accepted as “just another business expense.”

### **1. Introduction**

The Asian Conservation Company (ACC) was created to address the ongoing challenge of sustainable financing for biodiversity conservation. In November 2000, a group of venture philanthropists and an investment manager, Next Century Partners, were brought together by the WWF-US Center for Conservation Finance. On a boat amidst towering limestone cliffs and pristine waters in the Marine Reserve of El Nido in Palawan, Philippines, the group brainstormed on

how best to combine business and environmental conservation for the long term. The result was the ACC, a private equity holding company, whose first achievement was a successful bid for majority share in the Ten Knots Group (TKG) — owners of El Nido Resorts (ENR).

Ten Knots has been operating resorts in the area since 1982 and currently has two properties under management, Miniloc Island Resort and Lagen Island Resort. Although generally categorized as ecotourism resorts, El Nido Resorts are considered

to be part of the “Responsible Tourism” industry where companies make a positive contribution to conservation and the economies of local communities, while minimizing the negative impacts that tourism can have. Each resort mitigates its environmental impact through the use of sewage treatment plants and desalination facilities. Waste is segregated and properly disposed. Guests are greeted with an environmental introduction. A list of Ten El Ni-”Do”s is found in each room and posted at the arrival area of Lio Airport.

ACC’s investment in TKG/ENR is a commitment to doing business in the El Nido-Taytay Managed Resource Protected Area and contributes to future biodiversity conservation financing. ACC invests with a Triple Bottom-Line mandate of *acceptable financial returns* to shareholders, *environmental conservation* through sustainable financing and *corporate social responsibility* through real employment and educational opportunities. ACC believes that investments in environmentally sensitive companies, such as the Ten Knots Group, are profitable, provide gainful employment and educational opportunities, and thus motivate the community to protect the local environment. ACC requires its portfolio companies to provide a sustainable financing source to a qualified local non-governmental organization (NGO) working on biodiversity conservation with the ultimate goal of empowering multiple-stakeholder management teams to take ownership of future conservation programs.

## 2. The ACC Triple Bottom-Line Approach

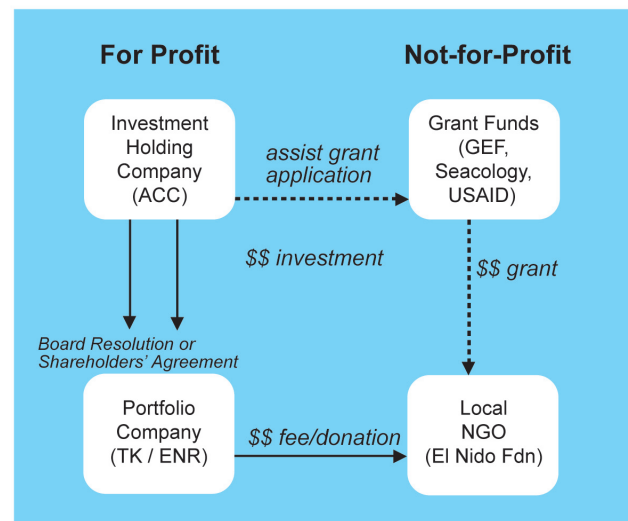
ACC may be the first investment holding company in Southeast Asia created with a Triple Bottom-Line approach, which includes:

- Acceptable Financial Returns to shareholders
- Environmental Conservation through a sustainable financing model

- Corporate Social Responsibility through real employment and educational opportunities.

ACC believes that by investing in environmentally sensitive companies, it can generate acceptable financial returns to investors while providing communities with gainful employment and educational opportunities. These benefits motivate local communities to protect their own natural resources. The portfolio companies will provide a qualified NGO with sustainable financial support to help ensure that biodiversity conservation is carried out in the long term. Since their inception, operating companies under ACC have made substantial contributions, held in conservation trust accounts, toward future environmental activities. The goal is for local communities and their multiple-stakeholder management teams to take ownership of the conservation programs.

The ACC model addresses one of the most challenging issues in conservation: financial sustainability.



- ACC will initiate a Board Resolution to be passed or a Shareholders' Agreement to mandate the portfolio company to direct a particular amount of funding for conservation programs in the area. ACC will require this as part of its equity investment.



- b. Depending on the business, the conservation funds will be generated by charging a bed, landing, or diving fee (tourism related) — a user fee (charge per unit of product sold) — or through an annual donation.
- c. An acceptable and qualified local NGO will be involved in implementing biodiversity conservation programs where the ACC portfolio company operates.

Following the Triple Bottom-Line mandate, **ACC's top priority is profitability**. ACC's investment in Ten Knots must be profitable to give local communities long-term employment opportunities and to assist in environmental conservation activities in the area. Proper financial management and controls will help ensure sustainable funding.

### 3. Payments for Environmental Services

#### 3.1 Specification of the Environmental Service

As a private-sector partner, ACC/TKG has devised a payment scheme for the landscape/seascape of El Nido, which includes land and marine waters with extensive coral reefs, lagoons, mangroves, seagrass beds, seaweed beds, beach forest, limestone forest, semi-deciduous forest, and lowland evergreen rainforest.

An increasingly competitive leisure and hospitality industry demands an environmental service that meets the discriminating tastes of guests looking for clean and beautiful resorts, seas, and beaches. To meet the demands of their discerning guests, TKG/ENR sets high standards of service and gives priority to environmental protection by being proactive in coastal and marine cleanups.

#### 3.2 The Payment Mechanism

Payments in the form of annual donations are earmarked for the protected area office tasked with overseeing the protection of the marine life and such

species as dugongs, cetaceans, and marine turtles that are at risk due to illegal fishing, an increasing number of fish pens, and unsustainable levels of extraction of forest resources. There are park rangers who are continuously monitoring illegal fishing and illegal logging activities within the 90,000ha park. The rangers are likewise referred to as service providers whose performance is measured by the amount these threats are managed or mitigated.

Internal payments are made to fund ENR-initiated environmental activities, especially in what the ENR operationally refers to as the “core zone”. The objective is to maintain or enhance visitors' experience through their interaction with nature. This means that the zone must be kept secure, safe, clean and devoid of activities harmful to the interaction. To achieve this, the resort conducts clean-up activities, marine research, radio campaigns, etc.

ACC employs two payment mechanisms. The first is an external payment, with an example shown in the model above; the second is internal payments for services, i.e. payments that are imbedded in the operational costs of Ten Knots/El Nido Resorts.

The external payments are both mandatory and voluntary. Mandatory payments include the following:

- a. Ecotourism Maintenance Fund (EMF). Set up under an MOA with the Department of Environment and Natural Resources (DENR), Department of Tourism (DOT), Palawan Council for Sustainable Development (PCSD), and Ten Knots for specific islands. The current fee is Php25/guest. The EMF is managed by a multipartite committee and the funds can be used for actual implementation of environmental programs and projects initially on the specified islands but if the committee agrees, also outside the islands but within Bacuit Bay. The EMF has yet to be tapped.

- b. Environmental Guarantee Fund (EGF). Set up under the same MOA as the EMF and managed by the same committee. The EGF can be used for rehabilitation or restoration measures in case of damage caused by the project (e.g. oil spill, forest fire). Withdrawals from the EGF must be replenished. The EGF has yet to be tapped.
- c. Integrated Protected Area Fund (IPAF). Ten Knots actively collects and submits fees (PhP20/guest/night) on a regular and consistent basis. IPAF was set up under the NIPAS law that dictates fees to be collected in a protected area (PA) for a wide range of business activities.

The voluntary external payment mechanism is carried out by two separate companies:

- a. Ten Knots Group through an annual donation
- b. Island Transvoyager Inc. (ITI), the aviation company servicing El Nido, through a corporate donation directly related to landed passengers in the PA, effectively a pass-thru landing fee included in the price of the airfare.

As part of the grant agreement with the Global Environment Facility (GEF) of the World Bank, the funds collected from TKG and ITI will be set aside in a conservation trust account during the life of the GEF grant. At the end of the GEF project, the trust fund will be used to fund the conservation activities in the protected area. The GEF project has completed year one of six and the conservation trust funds generated by TKG and ITI have reached more than 50 per cent of the co-financing targets.

### 3.3 Basis of Payments

None of the fees/payments were set as a result of willingness-to-pay surveys. The level of payments is set by the company and not by the guests. When

setting donations/fees, the companies considered the impact on profitability and on the aviation passengers, in the case of airfare. The private sector payments were used to protect natural assets and enhance guests' pleasant experience. These payments reflect the companies' understanding that the shareholders, employees, and the resort guests are stewards, partners, and "buyers" of environmental services.

### 3.4 Utilization of Proceeds from Payments

If the external payments generated annually by TKG/ITI were used to pay for services to maintain/manage the PA, then the amounts would equate to less than 50 per cent of the current PA requirements for basic level of maintenance. As directed by the GEF grant, these "payments" generated by TKG/ITI are being set aside in a conservation endowment that will be the foundation for sustainable financing of the PA in the future and these funds are still not enough.

If the El Nido PA were compared to a similar PA, such as the Bunaken National Marine Park in North Sulawesi, Indonesia, then the estimate for a proper conservation endowment fund for the El Nido PA would be between US\$7-10M. If the PA were properly managed with adequate numbers of rangers, equipment, etc, then the annual funding requirements would be around US\$100,000. Currently the IPAF collections, which are to cover the maintenance of the El Nido PA, are less than US\$2,000, i.e. less than 2 per cent of the proper maintenance requirements. The local government unit (LGU), individual barangays/towns, and other NGOs contribute additional funding but the needs far exceed the available funds; thereby requiring TKG/ENR to use internal payments to fund areas of particular importance to guests.

Historically, Ten Knots has actively supported or spearheaded scientific studies in such areas as dugong research, coral reef and dive-site mapping, turtle research, and terrestrial fauna surveys. In line with Ten Knot's Corporate Social Responsibility,

numerous projects and programs have been undertaken in areas including, but not limited to, environmental education; coastal cleanups; setting up the Bebeladan community water system; purchasing and installing mooring buoys; cross-visit training sessions; and tree planting. TKG actively supports the health and social welfare programs of the El Nido Foundation (ENF), which was established by the owners of TKG in 1994. For the past four years, Ten Knots has been operating DWEN community radio with the El Nido Media Organization (EMO). TKG pays for three hours of weekly airtime and supports a program focusing on responsible tourism and environmental education. Additionally, a mangrove reforestation program for Barangay Manlag is currently being planned in partnership with the Protected Areas Office (PAO).

More specifically, the internal payment mechanism is embedded in the operations of ENR and TKG. Environmental support/services often benefit both the community and the company. The internal activities can be identified as ongoing or as one-time/as-needed. Annually, approximately PhP800,000 is donated as cost of environmental services.

Ongoing activities include the following:

- a. Monthly coastal cleanups ensure waste is properly collected and disposed. Estimated annual costs: PhP75,000
- b. Support for patrol enforcement to discourage illegal fishing, particularly in the area of resort operations. Estimated annual costs: PhP375,000
- c. IEC (information, education and communication) activities, including: environmental education for staff, guests, and community; representation and participation in stakeholder meetings; arranging for DENR and legal council to educate fishermen about foreshore regulations; and buying radio airtime for environmental programs. Estimated annual costs: PhP350,000

- d. Solid Waste Management, including proper segregation, monitoring, and disposal of solid wastes and clean-up of previous landfills. Garbage handling used to be expensive for resort operators since garbage had to be shipped to Manila. This past expense has now become a new source of revenue from a new business opportunity given to a former employee who started her own business of waste pickup and trading. The resorts sell her the bulk of her waste collection. Estimated annual costs: Previously, PhP300,000; currently, PhP0.0

Total Estimated Annual costs for Environmental Services/Support: PhP800,000

One-time/As-needed activities include the following:

- a. Purchase and installation of mooring buoys. Estimated costs: PhP100,000
- b. Expert assessment of Coral Reef Restoration project. Estimated costs: PhP30,000
- c. Transformation of El Nido airline waiting lounge in Manila into a biodiversity experience showcasing Palawan flora and fauna, and local handicrafts to promote educational awareness to guests. Estimated costs: PhP100,000
- d. Sea scout training involving resort staff and community members. Estimated costs: PhP250,000
- e. Expert assessment and programmatic clean up of Crown of Thorns. Estimated costs: PhP150,000

#### 4. Perceptions of the Company on PES

ACC has learned that when there is a will, there is a way. Private sector entities not only bring in direct investments to help raise the socioeconomic level of a community through real employment, but they also use business skills, contacts, and creativity to bring in additional funds for conservation activities. ACC leveraged its private equity investments to

attract grants for biodiversity conservation. ACC successfully pursued opportunities that historically were relegated to NGOs to explore.

ACC is committed to making the Triple Bottom-Line approach work by providing real employment in poor communities and contributing sustainable financing to carry out long-term conservation programs on environmental protection for future generations. ACC's shareholders understand that the company must pay for environmental services as part of this commitment.

## 5. Challenges, Recommendations and Lessons Learned

Private companies, such as Ten Knots, operating in a protected area are required to abide by additional laws that may need to be revised. The current NIPAS law dictates fees to be collected for a wide range of business activities, including entrance fees, user fees, filming fees, fish farming and pens. The Protected Area Management Board (PAMB) of each PA sets the fee amount and the activities to be included. Fees are set at varying levels throughout the country and may not be collected consistently. The revenues generated are to be credited to the IPAF. All fees are sent to the National Treasury with 75% eventually being returned to the PA, albeit very slowly. In theory, the law may be meaningful, but in practice and implementation it is quite difficult. The El Nido IPAF process is deemed successful primarily because TKG is recognized as a special collecting agent for the Conservation Fee (PhP20/guest/night). TKG actively collects and submits fees on regular and consistent basis.

The IPAF system should be revised to allow PAs to recover their operating costs and possibly allow all collected funds to remain in the PA. For example, the total IPAF fees generated from the El Nido PA and forwarded to Treasury for the period December 1999-June 2003 was PhP482,341 (PhP220,000 from the TKG group). The PhP74,327 (appx. US\$1,400) collected in 2002 covered less than 1

per cent of estimated annual operational costs of the PA for that year. There were times when the PA Office received its disbursements 18 months after the requests papers were submitted. Such delays create a financial strain on the operations of a PA as well as a disincentive to pay. A very successful model of collection and distribution of park fees is the Bunaken National Marine Park where all fees remain with the Marine Park and accounts are transparent and monitored by a multipartite management board.

ACC recommends a simple fee collection (preferably a "one-shot" fee) for any protected area to help pay for the use of the "natural assets" within the PA. For the private sector entities that are not legally required to support the environment, a fee may be collected in the form of a room tax, license/user fee, or donation. Any fee should be simple to collect, sensible, and reasonable.

ACC has encountered challenges in the parameters set by private equity investors and multilateral institutions with equity investment capabilities. Any investment in the environment takes time to realize returns, both financially and in conservation measurements. For this reason, ACC was structured as a "holding company" versus a "fund." ACC does not guarantee a return of capital in five to seven years, as many funds do. ACC understands that conservation-oriented investments may require a much longer time horizon, i.e. it takes 15 years for a tree farming operation to be sustainable and potentially profitable. The time frame for a viable and sustainable conservation investment, by its nature, is longer than seven years. Because of the lack of willingness to invest in a longer term commitment, ACC has only attracted "Venture Philanthropists" — those enlightened investors/donors that want to see their philanthropy donations invested for the long term. The ACC model does not appeal to the normal financial investor, but it does appeal to private philanthropists who understand how real businesses can generate conservation funding and employment opportunities (poverty alleviation) for the long term.

As more shareholders of public corporations begin to demand responsibility and reporting for environmental protection, the trend of corporate social responsibility focusing on environmental programs will continue. More pressure is being put on companies to spend on environmental protection activities. In some of the most progressive companies, environmental auditing reports are being incorporated into financial reporting. Management and shareholders are beginning to accept that environmental payments are part of the necessary “cost of doing business” and not just a philanthropic activity. As the public, particularly in developed countries, becomes educated on the needs to protect the environment for future generations, then it may become more commonplace to incorporate environmental payments as “just another business expense.”

More information on ACC is available at [www.asianconserve.com](http://www.asianconserve.com) and on El Nido Resorts at [www.elnidoresorts.com](http://www.elnidoresorts.com).